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Draghi defends ECB's cheap lending scheme

By Claire Jones in Frankfurt

Mario Draghi has defended the European Central Bank's latest attempt to stave off economic stagnation in the eurozone, saying that the poor take-up of the ECB's first offer of cheap four-year loans was in line with the central bank's expectations.

Last week the currency bloc's lenders borrowed €82.6bn through the first of the ECB's Targeted Longer-Term Refinancing Operations, or TLTROs. The figure was well below the €400bn available and what analysts had forecast.

But the ECB president said the total was "within the range of take-up values" that the central bank had expected. He also said the results of the first TLTRO should be assessed alongside the outcome of the second offer of loans in December, for which he expected higher demand.

In a hearing at the European Parliament on Monday, the ECB president indicated policy makers would resort to sovereign bond-buying, also known as quantitative easing, if the central bank's latest measures fell short. Policy makers were, he said, "starting a transition from a monetary policy framework predominantly founded on passive provision of central bank credit to a more active and controlled management of our balance sheet."

The ECB hopes the TLTROs will work in tandem with purchases of private-sector assets to increase the ECB's balance sheet to levels last seen in early 2012, when it topped €3tn. The central bank now owns about €2tn in assets.

The ECB believes the revival of the European securitisation market through its purchases of asset-backed securities will help to spark more lending in the region. But Mr Draghi acknowledged Europe had "a problem of lack of demand" for loans from businesses and households. The ECB president also admitted that the central bank's clean-up of the region's biggest lenders, the so-called Comprehensive Assessment, could be restricting credit.

The ECB president kept the pressure on governments to match the central bank's efforts to heal the region's economy. "The success of our measures critically depends on a number of factors outside of the realm of monetary policy," Mr Draghi said.

In a thinly-veiled call for Germany to spend more, Mr Draghi signalled his support for Brussels' recommendation that the eurozone's largest economy reduce its current account surplus.

"For countries that have fiscal space, they should follow country specific recommendations as they have been endorsed by European leaders of the European Council," the ECB president said.

France and Italy should undertake "courageous" reforms, boosting competitiveness, while sticking within the rules of the EU's growth and stability pact.

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Europe's companies urge capitals to reform

Companies have welcomed plans by the European Central Bank to boost growth in the eurozone via new injections of liquidity, but warned that, without structural reforms by governments, these measures risk missing their target, write Sarah Gordon and Peter Wise.

"The ECB cannot do it all," says Nuno Ribeiro da Silva, chief executive of Endesa Portugal and a senior official with the Assocation of Portuguese Industrialists (AIP). "Governments also need to take stronger action in support of growth and jobs. They've had their foot hard down on the brake pedal and now it's time to ease off."

Last week the ECB launched the first of its eight targeted longer-term refinancing operations, which allow banks to lock in borrowing at record-low rates for four years, as long as they meet targets for lending to Europe's businesses. The central bank has also slashed its main interest rates to 0.05 per cent, and announced plans to buy up asset-backed securities and covered bonds.

So far, however, the ECB's easy monetary policy has failed to trickle down to businesses, particularly in struggling countries such as Italy.

At the end of last year, surveys suggested that Italian companies were finally starting to recover their enthusiasm for investing. But hopes for a pick-up in capital spending have been dashed.

Many of Italy's smaller company bosses would agree. Federica Lucisano, chief executive of Lucisano Media Group, which acquires and distributes films and TV programmes, says she believes access to credit has improved in Italy over the past year. But, she says, "the main problem is that, although the ECB has decreased interest rates, local banks still grant financing at high rates".

For many companies, it is lack of demand rather than lack of credit that has hampered growth plans. Indeed, Europe's large companies face no liquidity constraints. Not only have they been able to borrow in the bond markets at historically low prices for several years now, but they are also sitting on considerable cash piles.

Like Mr Draghi himself, many corporate bosses emphasise that the ECB's actions need to be complemented by supply-side reforms before they will feel confident about investing again.

"While the ECB has done its utmost and the liquidity is there, the momentum is now shifting to governments," says Cristina Amorim, chief financial officer of Portugal's Amorim group, the world's largest cork producer. "The issue is simple – lack of economic growth, lack of common policies, lack of integration. A better balance between opposing goals must be achieved at the eurozone level."

Ms Amorim says the full impact of the ECB's policies is still hard to assess, as some of the most important measures – like the purchases of ABS – are yet to be enacted. But overall she sees the business outlook improving. "Our investment plans are influenced by actual and forecast world economic growth," she says. "We are getting more confident about demand, and seeing interest rates at record lows. Together, these two factors should have a positive impact on performance."

Ms Lucisano in Milan agrees.

"In my opinion the ECB cannot take any further measures," she says. "It is up to the [national] governments to adopt policies which can favour the relaunch of investments in [each country], finally allowing the economy to restart and to get out of stagnation."

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Banks more willing to consider credit request

Pietro Colucci is the chief executive of Kinexia, a small renewable energy company based in Milan. He says it is too soon to gauge the impact of the ECB's most recently announced measures, but that banks in Italy have been more willing to consider companies' requests for credit in recent months.

Mr Colucci, though, like many other Italian companies since the crisis, has turned to other ways of funding his business than via the banks. "Our choice was to explore other financing instruments such as private bond placement," he says.

He does believe that the TLTROs, ABS buying, and negative deposit rates at the ECB should provide a liquidity stimulus for small- to medium-sized enterprises.

And, although he thinks "Mr Draghi has done and is doing all the best possible effort to create new support for credit easing to SMEs", he says national governments must do their bit, by implementing structural reforms.

"Without labour reform, fiscal reform in Italy, having credit is a necessary, but not sufficient condition to recover [from] the current situation and to develop a better future," he says.